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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

EX PARTE

March 22, 2002

William F. Caton
Acting Secretary
Federal Communications Commission
Room TW-A325
445 Twelfth Street, S.W.
Washington, DC 20554

Re: CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116, 98-170

Dear Mr. Caton:

On March 21, 2002, Colleen Boothby, on behalf of Ad Hoc Telecommunications Users Committee, Joel Lubin of AT&T Corporation, Donna Sorgi of WorldCom, Inc., and the undersigned, on behalf of WorldCom, met with Chairman Michael K. Powell and Kyle Dixon to discuss issues raised by the Further Notice of Proposed Rulemaking in the above-captioned dockets. The discussion focused on the points outlined in the attached document, which was distributed at the meeting.

Pursuant to Section 1.1206(b) of the Commission's rules, 47 C.F.R. § 1.1206(b), an original and fourteen copies of this submission are being filed for inclusion in the public record of the above-captioned proceedings.

Sincerely,


A. Richard Metzger, Jr.

cc: Kyle Dixon (w/o attachment)

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Immediate Revision of the Universal Service Collection Mechanism Is Needed

Coalition Proposal by Ad Hoc
Telecommunications Committee,
AT&T, e-TUG, and WorldCom

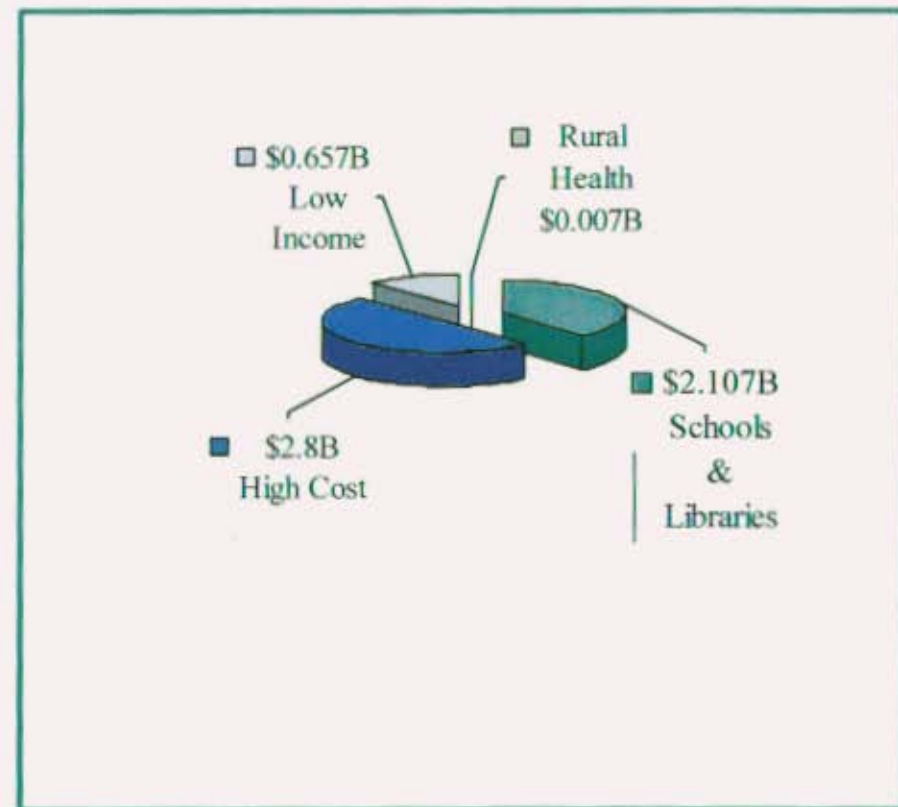
March 2002

Why Action is Urgently Needed

- **Revenue-based system produces unsustainable increases in USF charges**
- **Consumers are structuring their procurements to avoid steep USF charges**
- **Connections-based fee is**
 - **Technology neutral**
 - **Equitable to consumers**
 - **Sustainable over time**

Federal Universal Service Fund : \$5.5 Billion per Year

- High cost fund keeps rural rates affordable
- Low income households receive inexpensive Lifeline service and discounts for initial connection charges
- Schools and libraries receive e-rate discounts for equipment, wiring, and Internet connectivity
- Rural health care providers receive telecom discounts for telemedicine applications



Who pays the \$5.5 billion ? Customers!



76%
**Customers of
Long Distance
Carriers
\$4.2B**



16%
**Customers of
Incumbent Local
Exchange Carriers
\$0.9B**



6%
**Customers of
Wireless
Carriers
\$0.3B**



2%
**Customers of
Competitive Local
Exchange Carriers
\$0.1B**

How does the universal service fee appear on monthly customer bills?

- **Long distance customers: a percentage charge on revenues, in 9.9-11.5% range**
- **ILEC customers: a per line charge of about 47 cents nationally, growing to 60 cents 7/1/02 (SLC increase)**
- **Wireless customers: a per line charge, typically in the range of \$0.40-\$0.53**

Why A Revenue-Based System Is Doomed

- **Overall interstate revenues are in sustained 4% decline**
 - Largest long distance providers revenues are declining much faster than the average
 - Creating substantial upward pressure on most visible end user rates
- **USF fees are so high for large business users that they drive purchase decisions**
- **Mechanism is fundamentally broken**

Coalition proposal: residential

- **USAC to assess carriers based on wireline and wireless interstate connections**
 - **\$1 per connection per month**
 - **Lifeline assessed nothing**
- **Pagers assessed at \$0.25 per month**

Coalition proposal: business

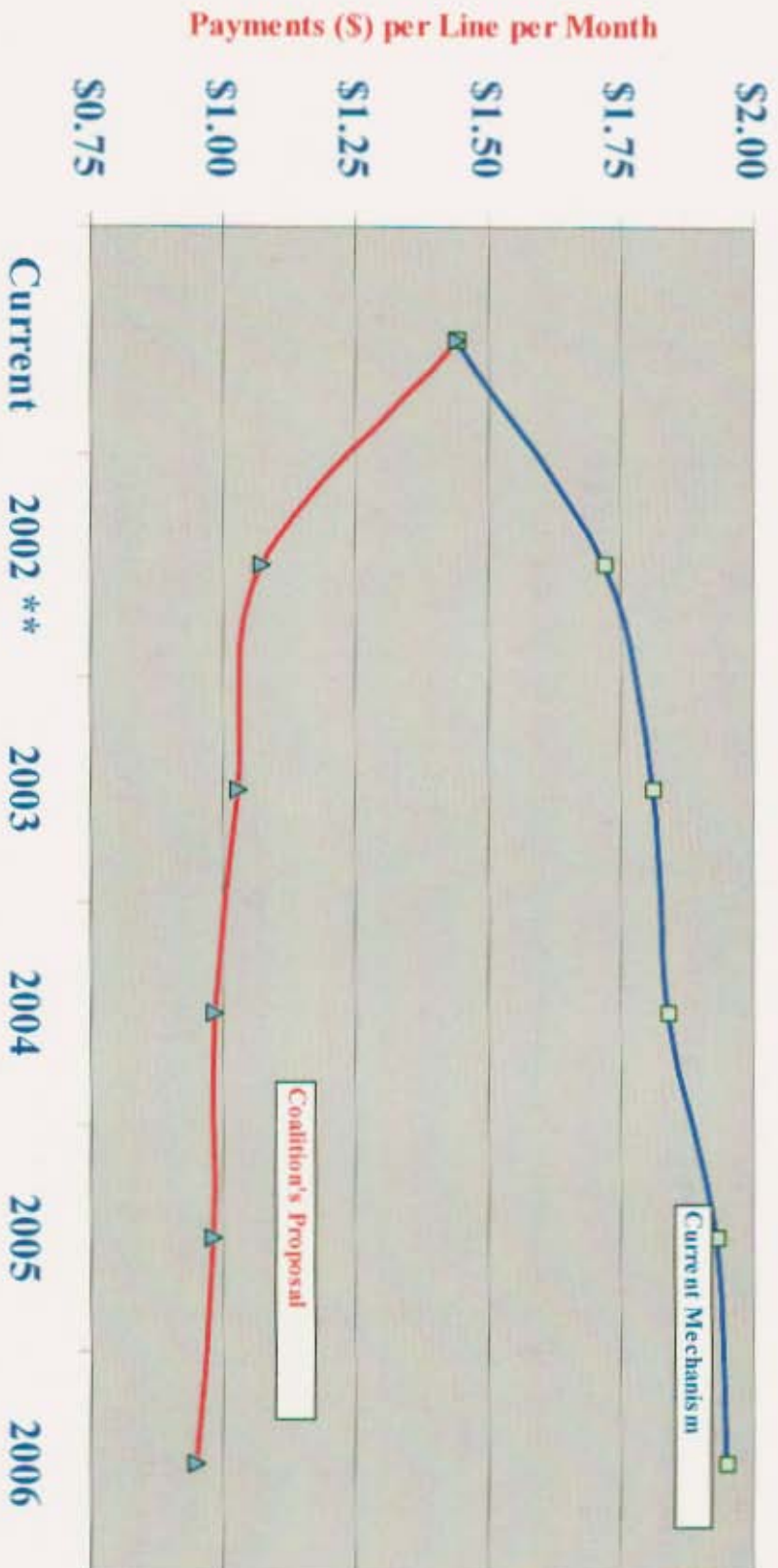
- **USAC assesses on interstate network connections and capacity**
 - **Single-line business (wireline) at \$1; wireless at \$1; pagers at \$0.25**
 - **Residual multi-line business (wireline) base charge \$2.50 - \$3.25:**

| <u>Level</u> | <u>Facility Capacity</u> | <u>USF Contribution Rate</u> |
|--------------|--------------------------------|-------------------------------------|
| 1 | Less than 1.544 Mb/s | Base multi-line business USF charge |
| 2 | 1.544 Mb/s (T-1) up to 45 Mb/s | 5 X (base MLB USF charge) |
| 3 | 45 Mb/s (DS-3) or greater | 40 X (base MLB USF charge) |

Who pays under the coalition's plan?

- **Carrier who has the billing relationship with the customer for the connection is assessed**
 - ILECs based on loops provided to their end users (loops are legally considered interstate, as well as intrastate)
 - Competitors who provision end users from their own loop facilities, via UNE-P or unbundled loop, or using interstate special access
 - Wireless carriers based on the number of “connections” (more easily counted than interstate revenues)

Residential USF Contribution Scenarios



* The Current Mechanism is a combination of "LFC Collection per Line" and "LD Collection Based on % of Customers Interstate and International Revenue"

** Reflects increases associated with the MAG Order (e.g. Interstate Common Line Support, SLC Increases)

Coalition Plan: Recovery

- **Connection assessment facilitates flat “per line” recovery**
- **“Collect and remit” rule reduces upward pressure on retail fees by eliminating uncollectibles as a cost**
- **Future increases borne equitably by all customers**

Prompt action needed by FCC

- **Revenue-based contribution system produces unsustainable increases**
- **Consumers structure purchases to avoid USF**
- **Use of connections fee is**
 - **Technology neutral**
 - **Benefits consumers**
 - **Preserves the fund**